

CITY OF ARLINGTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 1998

Prepared by the
City of Arlington, Texas
Finance Department

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DIRECTOR OF FINANCE
Jack Eastwood

CITY OF ARLINGTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

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December 30, 1998

To The Honorable Mayor Odom,
Members of the City Council,
and City Manager,
City of Arlington
Arlington, Texas

The Comprehensive Annual Financial Report (the "Report") of the City of Arlington, Texas (the "City") for the fiscal year ended September 30, 1998, is submitted herewith for your information and review. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, resides with the City's management. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The accompanying Report is divided into four sections. The introductory section contains a table of contents, this transmittal letter, an organizational chart, and a list of principal officials. The financial section begins with the General Purpose Financial Statements and provides an overview of the City's financial position and operating results as well as the Report of Independent Public Accountants on the financial statements and schedules; followed by a section of combining statements by fund type and other schedules that provide additional detailed information relative to the General Purpose Financial Statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The Single Audit Reports are available upon request from the City's Finance Department.

The financial reporting entity (the City) includes all the funds and account groups of the primary government (i.e., the City of Arlington, as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, financial statements of the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income

Plan, and Part-Time Deferred Income Trust are “blended” with those of the City. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Housing Finance Corporation, Arlington Industrial Development Corporation, and Arlington Convention and Visitors Bureau, Inc. are reported as discretely presented component units. A detailed description of these entities can be found in the Notes to Financial Statements.

The City provides a full range of municipal services including police and fire protection; utility services; the construction and maintenance of highways, streets and infrastructure; recreational activities and cultural events.

I believe that the Report, prepared by the City's Department of Finance based on generally accepted accounting principles, conforms to the standards of governmental accounting and financial reporting principles as promulgated by the Governmental Accounting Standards Board. The notes to the combined financial statements include a brief description of the funds, account groups, and component units included herein as well as other significant information to assist the reader.

Economic Condition and Outlook

The City of Arlington is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. As a result of its unique location, Arlington enjoys strong commercial/industrial and population growth. The City currently has a land area of 98.8 square miles and a population of 293,991 (estimated by the City's Planning and Development Services Department).

As of September 30, 1998, the unemployment rate for Arlington was 2.9 percent, which is lower than the Tarrant County and State of Texas rate of percent for the same time period. The consumer price index for the past twelve months showed a 1.7 percent increase in the Arlington area, which compares favorably with the 2.2 percent average increase for the United States.

Building Permits

A basic growth indicator of a community is the value of building permits. The following chart shows the value and number of building permits issued by category for each of the past three years.

Classification	1998		1997		1996	
	Value (000's)	Number	Value (000's)	Number	Value (000's)	Number
Residential	\$176,294	3,863	\$150,222	3,401	\$168,819	3,594
Duplex	0	0	118	2	427	6
Apartments	7,692	14	61,714	49	511	2
Commercial	68,900	287	74,870	329	105,884	329
Institutional	39,417	68	19,954	55	28,802	41
Alterations and Additions	75,680	646	62,520	718	106,048	601
Signs	2,929	1,489	2,514	1,286	2,221	1,236
Miscellaneous	10,444	566	9,490	831	7,072	504
Total	<u>\$381,356</u>	<u>6,933</u>	<u>\$381,402</u>	<u>6,671</u>	<u>\$419,784</u>	<u>6,313</u>

Major Initiatives

During fiscal year 1998, the citizens and elected officials of Arlington cooperated in the planning and implementation of several major projects. The results of this teamwork have made 1998 an exciting year and hold even greater promise for 1999. These projects include the design of plans for city growth and development, planning and construction of new facilities and aggressive economic development activities.

New Facilities Tierra Verde Golf Club, Arlington's new \$7.5 million recreational facility opened in southwest Arlington in 1998. Built with a commitment to environmental preservation, the City plans to limit the use of pesticides and chemicals in maintaining the grounds and golf course. It will become the first in the state and only one of six in the nation to gain signature status by Audubon International for its commitment to the environment.

Construction continues on the \$16.3 million expansion project at the Convention Center. Scheduled for completion in the summer of 1999, the Center will have 66,500 square-feet of additional space.

The Southwest Branch Library was remodeled and expanded during 1998. Book collections were reorganized to be more user friendly, new carpet was installed and an additional 3,500 square feet of space was added. The library was originally constructed in 1987 and serves over 1,000 patrons daily.

Meadowbrook Park in Central Arlington received a \$1.3 million upgrade in 1998. The park now has a new 10,000 square-foot playground with updated equipment, a picnic pavilion, a new one-half mile walking and jogging trail and a lighted basketball court. Other improvements included the addition of irrigation and storm drainage systems and the expansion of roadways and parking lots.

Gateway Park opened in Southeast Arlington in 1998 at the southern starting point of the Johnson Creek corridor. This park is a four-acre recreational site and was a cooperative effort of the Friends of Johnson Creek, the City, and Johnson Creek Executive Committee.

A \$1.5 million upgrade went on line in 1998 to improve signal coverage for the City's emergency personnel. Improvements were made to an 800-megahertz radio system and mobile data terminal system. This new technology has improved radio coverage throughout the entire city for all city departments and allows transmitters to provide a stronger and more consistent signal to the Arlington dispatch system. The upgrade also enhanced the mobile data in emergency vehicles. The new system can process information requests up to four times faster.

Economic Development The city's first tax increment financing tax zone was established in 1998. Once a plan is approved, increased tax revenue generated over the subsequent 20 years due to rising property values will not be distributed citywide but reinvested in the zone. This will provide a source of funds for public improvements located within the zone without increasing the tax rate. These funds will be used to revitalize historic downtown and make it more attractive for private development.

With the adoption of the Freeport Exemption program, Arlington became an even more attractive place for industry. Through this program, taxes paid on inventories held in the state for 175 days or less are waived.

New York Acres, the city's first affordable housing subdivision for low-to-moderate income families opened in 1998. This neighborhood revitalization project was a result of the cooperation and planning over a four year period of 15 different organizations.

In an effort to encourage corporate expansions and job creation, the City provided tax abatement incentives to several companies including National Semiconductor, PrimeCo, Lear Operations Corp., and Aetna U.S. Healthcare. These companies have agreed to create more than 1,000 new jobs and invest more than \$378 million in expansions or new development over the next ten years.

Management Information

The City operates under the council-manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. On November 2, 1993, the voters approved a change in the election process for members of the Council. Prior to the election, all eight Council members and the Mayor were elected on an "at Large" basis. The new election procedures require three Council members and the Mayor to be elected "at Large" and five Council members to be elected in five single member districts. The first election under the new system was held in May, 1994 and two of the "at large" Council places were filled along with two single member district Council seats. The election in May 1995 completed the new election procedures filling three single member district places, one "at large" council place and the Mayor. All members of the Council are elected for terms of two years, with an election being held each year for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

The City Manager, appointed by the City Council, is the administrative head of the municipal government and carries out the policies of the City Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents.

The City Council also appoints members to certain boards, commissions, and authorities, as it deems necessary for the operation of the City.

Accounting System, Budgetary Control and Internal Control

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local awards, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management, the internal audit staff of the City and the City's independent certified public accounting firm.

As part of the City's single audit, tests were made to determine the adequacy of the internal control structure and of its compliance with applicable laws and regulations, including those related to federal and state awards. The results of the City's single audit for the year ended September 30, 1998, disclosed no material internal control weaknesses or violations of laws and regulations.

In addition, the City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, certain special revenue funds, debt service fund, and proprietary funds are included in the annual appropriated budget. Project-length budgets are prepared for capital project funds. The level of budgetary control is at the departmental level within each fund. The government also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbrances are treated as a reservation of fund balance.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions

The following schedule presents a summary of general fund revenues for the fiscal year ended September 30, 1998, and the increase or decrease from the prior fiscal year:

	<u>Amount</u> (000's)	<u>Percent</u> <u>of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>from 1997</u> (000's)
Taxes	\$72,064	67.5	\$ 3,294
Licenses and Permits	2,823	2.6	196
Utility Franchise Fees	21,422	20.1	1,623
Fines and Forfeitures	4,163	3.9	830
Leases, Rents and Concessions	706	.7	50
Service Charges	4,866	4.6	316
Interest Revenue	678	.6	(73)
Net increase in the fair market value of investments	<u>2</u>	<u>-</u>	<u>2</u>
	<u>\$106,724</u>	<u>100.0%</u>	<u>\$6,238</u>

The largest dollar-value increase in revenues came from taxes. This increase is due to increased property tax collections primarily attributable to increased property tax valuations, as well as from an increase in sales tax from the active local economy.

The tax rate for 1997-98 was 63.8 cents, which was a reduction of 0.2 cents from the 1996-97 tax rate. The debt service portion of the tax rate decreased by 1.37 cents while the general fund tax rate increased by 1.17 cents.

Property Taxes

Property tax assessed valuations of \$10,180,991,000 represented a 4.9 percent increase over the preceding year. Total property tax collections (current and delinquent including penalty and interest) were 100.1 percent of the current tax levy. Over the last ten years the ratio of total collections (current and delinquent including penalty and interest) to the current tax levy has been in excess of 100.1 percent. Outstanding delinquent taxes (net of penalty and interest) amounted to \$3,374,000 at September 30, 1998.

Expenditures

The following schedule presents a summary of general fund expenditures for the fiscal year ended September 30, 1998, and the increase from the prior fiscal year:

	<u>Amount</u> (000's)	<u>Percent</u> <u>of</u> <u>Total</u>	<u>Increase</u> <u>from 1997</u> (000's)
--	--------------------------	---	--

General Government	\$19,795	18.7	\$ 140
Public Safety	58,923	55.7	2,773
Public Works	16,568	15.7	200
Public Health	1,627	1.5	165
Parks and Recreation	<u>8,927</u>	<u>8.4</u>	<u>1,082</u>
Total Expenditures	<u>\$105,840</u>	<u>100.0%</u>	<u>\$4,360</u>

The increase in general fund expenditures are primarily due to compensation increases and staffing increases principally in Police, Fire, and Community Development. The City Council authorized compensation increases averaging 4.5 percent for all civilian employees.

Fund Equities

Fund balances and retained earnings/contributed capital in the major operating funds were maintained at adequate levels to finance current operating expenditures/expenses. The fund balance of the general fund increased by \$3,803,000 or 33.18 percent. This increase was due generally to lower than expected expenditures.

Debt Administration

At September 30, 1998, the City had a number of debt issues outstanding. These issues totaled \$270,835,000 of permanent improvement bonds and \$86,761,000 of revenue bonds (payable from Water and Sewer Utility revenues) for a combined total of \$357,595,000. The City has maintained its AA rating from Standard and Poor's Corporation and its Aa3 rating from Moody's Investor Service on general obligation bond issues. The City also maintained its AA- rating from Standard and Poor's Corporation, as well as its Aa3 rating from Moody's Investor Service on Waterworks and Wastewater Revenue bonds.

The City completed a cash defeasance of \$16,805,000 on the City's Waterworks and Sewer System Revenue Bonds, Series 1989, during the year.

The City issued \$19,630,000 of Permanent Improvement Bonds, Series 1998 and \$5,330,000 of Certificates of Obligation, Series 1998A in 1998 at an effective interest rate of 4.88 percent and 4.94 percent respectively. The bond proceeds will be used to make various capital improvements. Additionally, the City issued \$15,000,000 of Certificates of Obligation, Series 1998, with an effective interest rate of 4.93%. The proceeds from the certificates were used to expand the City's Convention Center.

The City's most recent bond election was held on January 18, 1997, when the citizens of Arlington approved \$37.860 million in additional bonds for future Park and Recreation improvements. Authorized but unissued General Obligation Bonds as of September 30, 1998, amounted to \$55,610,000.

Cash Management

The City of Arlington has designated Chase Bank of Texas (Arlington Branch) as the City's depository bank. The depository contract states that all available funds will be swept nightly into a concentration account. The concentration account is fully collateralized and interest bearing. Any funds not needed to meet short-term obligations are invested as authorized by state law and the City's investment policy.

The City invests its funds in accordance with the Public Investment Act and statutory provisions of a written investment policy, approved by the City Council, that primarily emphasizes safety of principal and liquidity and that addresses investment diversification, yield, maturity, and the quality and capability of investment management. All City funds must be invested in investments that protect principal, are consistent with the operating requirements of the City, and yield the highest possible rate of return. These investments must be made "with judgment and care, under prevailing circumstances,

that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the City Council or the chief executive officer of the City.

The City invests in U.S. Government and Agency Securities, repurchase agreements, money market mutual funds, statewide pools, bankers' acceptances, commercial paper, and collateralized certificates of deposit. As of September 30, 1998, the total investment and deposit portfolio of the City for all funds was \$250,757,000 at fair value.

The investment program of the City's primary government for the fiscal year ended September 30, 1998, resulted in interest revenue of \$11,559,000. The operating cash of certain funds and component units is pooled into a cash management pool for the purposes of increasing income through combined investment activities. Interest is allocated on a quarterly basis to all funds in the investment pool based on their average balance at the end of each month. Excess cash balances in Capital Project Bond Funds and other selected funds are invested separately and interest earned is recorded in these respective funds.

Employee Retirement System

The City of Arlington participates in the Texas Municipal Retirement System (the "TMRS"), an agency operated by the State of Texas. Employees of local government entities who participate in TMRS contribute a fixed percentage of their gross pay, currently 7 percent for City of Arlington employees. The City matches the employee contribution at a two to one level. The actual amount the City contributes is actuarially determined annually.

Also, the City has established a Part-time Deferred Income Trust (the "PDIT") in lieu of Social Security. Part-time employees currently contribute 3 percent of their gross pay and the city contributes 2.9 percent.

As employees leave municipal employment other than through retirement, they may withdraw from TMRS and PDIT those funds they contributed, but forfeit the employer's contribution. Each municipal employer's contributions, for the current contribution requirement, are offset by such forfeitures.

The City has a deferred compensation plan for its executives whereby the City contributes 5 percent of the executive's annual salary to the plan. Additionally, two elective defined contribution retirement plans are available to all employees. The first plan is a Thrift Savings Plan, where employee contributions are matched fifty cents to the dollar, up to 6 percent of the employee's income. The second plan is administered by the Public Employees Benefit Services Corporation and funded entirely by employee contributions.

Prior to October 1, 1992, City employees participated in a Disability Income Plan (the "DIP"), a single employer disability plan, which was funded entirely by contributions from the City. Currently the City provides active employees with disability insurance through a policy obtained from a commercial carrier. A detailed description of the status of these plans can be found in the Notes to Financial Statements.

General Fixed Assets

The general fixed assets of the City are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of the Enterprise Funds, the Internal Service Funds, Component Units, and the infrastructure of the City. As of September 30, 1998, the general fixed assets of the City amounted to \$247,746,000. This amount represents the original cost of the assets and is

considerably less than their current value. Depreciation of general fixed assets is not recognized in the City's accounting system.

Risk Management

The City currently has three insurance funds reported in Internal Service Funds: Arlington Property Finance Authority, Inc. Fund (the "APFA"), Workers' Compensation Fund (the "WCF") and Group Health Fund (the "GHF").

The APFA accounts for the City's general liability insurance program. Independent consulting actuaries determined that a deposit of \$10,000,000 in the APFA would fund the general liability program for ten years; consequently, in fiscal 1986 the APFA issued \$9,000,000 of Risk Management Notes Payable and the General Fund contributed \$1,000,000 to fund the program. This program was extended for five more years, until fiscal 2001.

The APFA claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 5.5 percent. These liabilities are reported in the accompanying financial statements at their present value of \$1,891,000 at September 30, 1998.

The City's workers' compensation plan provides City employees with workers' compensation insurance through the WCF. Under this program, the WCF provides coverage for up to a maximum of \$300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. All City departments participate in the workers' compensation program. Payments to the WCF from each department are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield of 5.5 percent. These liabilities are reported in the accompanying financial statements at their present value of \$3,235,000 at September 30, 1998.

The City's group health insurance plan provides City employees with health insurance through the Group Health Fund. The premiums for such insurance coverage are paid using funds obtained from payroll deductions and charges to City departments. All claims are paid by the insurance company. The City's liability related to employee claims is limited to the annual aggregate premium due to the insurance company, which is comprised of an estimated claims liability plus administrative expenses. Any claims paid by the insurance company, during the policy year, in excess of the claims liability portion of the premiums due from the City are borne by the insurance company. As the annual premium amount represents the total health insurance cost to the City, the GHF charges health insurance costs to the various City departments based on actual premium costs incurred by the participating employees in each department less the amounts paid through employee payroll deductions.

Prior to January 1, 1997, the City administered a portion of its group health plan through a fully insured program. Under this funding arrangement, the City's liability was limited to annual premiums due which covered both medical plan costs and administrative fees.

Enterprise Operations

The City of Arlington's enterprise operations comprise two separate and distinct activities: the Water and Sewer Utility system and the Sanitary Landfill operation.

The Water and Sewer Utility system's sound and conservative financial management practices have contributed to its solid financial position. Water and sewer rates remained at the 1996-97 level. Net income increased 46 percent to \$20,812,000 due to an exceptionally hot and dry summer.

The Sanitary Landfill maintained existing service levels in fiscal year 1998. Revenues were effectively flat during fiscal year 1998, while expenses decreased due to closure and post closure costs.

Independent Audit

State statutes require an annual audit by independent certified public accountants. The firm of Arthur Andersen LLP was selected by the City Council. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The Report of Independent Public Accountants on the general-purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The Report of Independent Public Accountants related specifically to the single audit is included in a separate document.

Certificate of Achievement

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its comprehensive annual financial report for the year ended September 30, 1997. This was the twenty-first consecutive year that the City has received this prestigious award. In order to be awarded the Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for our twenty first consecutive certificate.

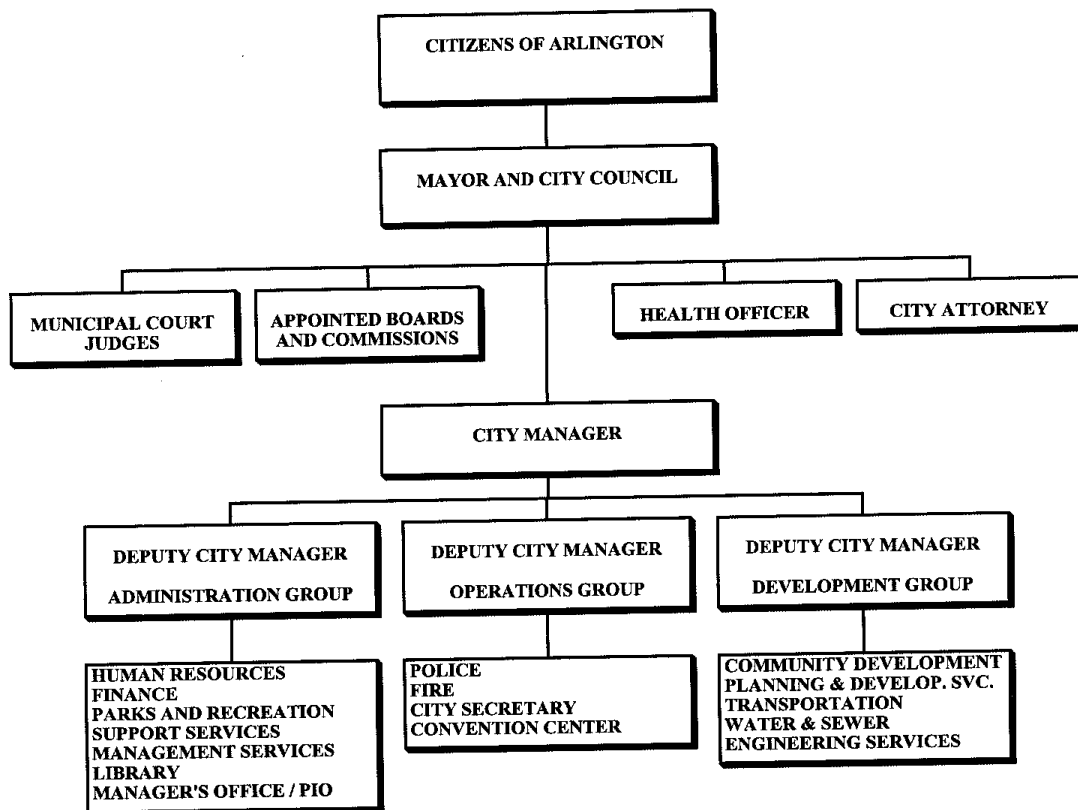
Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner and City management for its continued support and assistance.

Respectfully submitted,

Jack A. Eastwood, CPA
Director of Finance

CITY OF ARLINGTON ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Arlington,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Douglas R. Ellsworth
President

Jeffrey L. Esler
Executive Director